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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of the Application of San Diego Gas &
Electric Company and Southern California Gas
Company for Authority to Integrate Their Gas
Transmission Rates, Establish Firm Access Rights,
and Provide Off-System Gas Transportation
Services

A.04-12-004
(Phase II)

**RESPONSE OF
UNITED STATES GYPSUM COMPANY
TO PETITION FOR MODIFICATION**

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April 9, 2007

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In accordance with Rule 16.4 of the Commission's Rules and Practice and Procedure, the United States Gypsum Company ("USG") hereby submits its response to the Petition for Modification of Decision 06-12-031 submitted by the Southern Generation Coalition ("SCGC"). SCGC requests that the Decision be modified in two respects: (1) elimination of the five-year average monthly limit on how much capacity will be available at each receipt point for Step 2 bidding; and (2) limiting the maximum term that could be bid in Step 3A (applicable to existing capacity) to three years.

As to the first issue – elimination of the cap on Step 2 bidding, USG believes that SCGC's position has merit and supports it. However, USG is strongly opposed to the second modification proposed by SCGC in that it would preclude any participant from being able to acquire existing receipt point capacity for a term longer than three-years. USG believes that if participants are willing to make long-term commitments, they should not be precluded from doing so by such an arbitrary rule. USG recently executed a fifteen-year firm transportation agreement with SoCalGas which is currently pending in A.06-12-023. USG entered into this

contract in light of a substantial expansion of its Plaster City manufacturing plant and its desire to be assured of firm transportation capacity for the long-term. SCGC has protested USG's long-term contract on a number of grounds. USG remains optimistic that the Commission will see the value of customers entering into such long-term commitments and will expeditiously approve the contract as filed. However, if the contract were not to be approved and SCGC's request to limit Step 3A to three years were to be granted, customers such as USG would be unable to satisfy their requirement for long-term certainty of firm service. Although it may be that relatively few participants will seek long-term capacity in Step 3A, market participants nevertheless should have the freedom to decide what term of contract best meets their needs. After all, "freedom of choice" is one of the primary reasons for unbundling costs and services on the SoCalGas system. SCGC's attempt in its petition to foist a "one size fits all" approach on all market participants is contrary to sound policy. Although SCGC members may not be willing to enter into long-term commitments, their views should not preclude other parties from doing so.

Nothing has changed since the Decision was issued in December 2006 that would justify a fundamental change of the type sought by SCGC. The SCGC proposal to limit the term in Step 3A to three years runs directly contrary to Finding of Fact 27 in D.06-12-031:

The adoption of the FAR proposal provides certainty to FAR holders that their gas can be delivered from the receipt point to the citygate, which in turn will encourage parties to enter into long-term gas supply contract.

The ability to enter into long-term gas supply contracts with a concomitant assurance of firm receipt point capacity would be eliminated if SCGC's proposal were to be adopted. Just because SCGC members apparently do not value long-term arrangements there is no reason to require all other market participants to forego such arrangements. USG supports allowing all customers and market participants to determine the type and duration of contractual

commitments which best suit their needs. This type of flexibility is essential to allow all participants to manage their gas costs in the most efficient manner possible.

For the reasons stated above, USG supports the elimination of the historic usage cap in Step 2 of the FAR process, but is strongly opposed to the proposal to establish a three-year maximum term in Step 3A.

Respectfully submitted,



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April 9, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing “Response of United States Gypsum Company to Petition for Modification” upon each person designated on the official service list compiled in this proceeding.

Dated at Washington, D.C. this 9th day of April, 2007.



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